

Message Text

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ACTION IO-13

INFO OCT-01 NEA-10 ISO-00 EB-07 SP-02 USIA-06 AID-05

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 AGR-05 FEAE-00 INT-05 DODE-00

PA-01 PRS-01 OIC-02 AF-08 ARA-06 EA-07 EUR-12 /143 W

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R 241034Z AUG 76

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 5656

INFO USUN NEW YORK 601

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LIMITED OFFICIAL USE COLOMBO 3195

E.O. 11652: N/A

TAGS: EFIN, PORG, CE

SUBJECT: NAC RESOLUTIONS ON THIRD WORLD BANK AND CURRENCY UNIT

REF: COLOMBO 3123

1. DURING DINNER PARTY FOR VISITING AMBASSADOR FRANCIS DALE AUGUST 23, EMBOFF DISCUSSED SRI LANKAN PROPOSALS ACCEPTED BY NON-ALIGNED SUMMIT CONFERENCE (NAC) ON THIRD WORLD BANK AND CURRENCY UNIT WITH LAL JAYAWARDENA, SECRETARY OF FINANCE MINISTRY (AND PROBABLE AUTHOR OF PROPOSALS).

2. WITH REGARD TO ESTABLISHMENT OF "A CONTERVAILING CURRENCY BACKED BY THE ECONOMIC POTENTIAL OF NON-ALIGNED AND OTHER DEVELOPING COUNTRIES," JAYAWARDENA SAID THIS LANGUAGE HAS BEEN CAREFULLY SELECTED TO ALLOW INTERPRETATIONS ON MORE THAN ONE LEVEL. HE AGREED THAT OBVIOUS INTERPRETATION, AND ONE THAT WORLD PRESS HAS PICKED UP, SEES RESOLUTION AS CALL FOR A LIMITED OFFICIAL USE

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NEW RESERVE ASSET, A SORT OF THIRD WORLD SPECIAL

DRAWING RIGHT. BUT, ACCORDING TO JAYAWARDENA, THIS IS NOT CORRECT INTERPRETATION. NAC RESOLUTION IS ACTUALLY AIMED AT BRINGING ABOUT A MODIFICATION OF EXISTING SDR SYSTEM TO RECYCLE OPEC BALANCE OF PAYMENTS SURPLUSES TO DEVELOPING COUNTRIES.

3. JAYAWARDENA SAID THAT ALL "REASONABLE" LDC'S RECOGNIZE THAT PRESENT LEVEL OF INTERNATIONAL LIQUIDITY IS MORE THAN SUFFICIENT. IN ORDER TO CREATE MORE SDR'S WITHOUT ADDING TO GLOBAL RESERVES, JAYAWARDENA ENVISIONS AN ARRANGEMENT WHEREBY COUNTRIES RUNNING LARGE BALANCE OF PAYMENTS SURPLUSES (READ ARAB OPEC MEMBERS) WOULD AGREE THAT ACCUMULATED RESERVES ABOVE SOME PREDETERMINED AMOUNT WOULD BE DEPOSITED WITH IMF TO BACK CREATION OF AN EQUIVALENT AMOUNT OF SDR'S. THESE NEW SDR'S WOULD BE ALLOCATED TO DEVELOPING COUNTRIES WITH MOST SERIOUSLY AFFECTED RECEIVING MAJOR SHARE. TO MAKE THIS SCHEME ATTRACTIVE TO SURPLUS COUNTRIES, IMF WOULD HAVE TO PAY A COMPETITIVE RATE OF INTEREST ON SUCH DEPOSITS.

4. JAYAWARDENA SAID PROPOSED "BANK OF DEVELOPING COUNTRIES TO UNDERTAKE COMMERCIAL AND MERCHANT BANKING ACTIVITIES" IS ALSO A DEVISE TO CHANNEL OPEC SURPLUSES TO LDC'S. (HE ALSO SAID THAT "MERCHANT BANKING" IN THIS CONTEXT MEANS INVESTMENT BANKING.)

5. JAYAWARDENA AGREED THAT WITHOUT OPEC FINANCING, NEITHER OF THE ABOVE PROPOSALS COULD BE REALIZED. NEVERTHELESS, HE FELT THERE WAS A GOOD CHANCE OF OPEC SUPPORT.

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